

CENTER FOR CONTINUING STUDY OF THE CALIFORNIA ECONOMY

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SUBJECT: Summary of Regional Growth Forecast Scenarios and Key Issues

The Center for Continuing Study of the California Economy (CCSCE) is under contract to SACOG to provide quantitative regional growth scenarios to 2050 and identify and discuss key issues facing the region to maintain economic competitiveness and plan for the 2020 Metropolitan Transportation Plan (MTP) and Sustainable Communities Strategy (SCS).

The words forecast and projections are used interchangeably in the text and have the same meaning for CCSCE's work

Structure of the Baseline Growth Forecast Process

Three growth forecast scenarios were developed starting with a detailed baseline scenario whose key assumptions are described below.

Growth forecasts were developed for the six county region and not for any smaller areas within the region. Growth forecasts used 2016 as the base year and extend to 2050.

The rate of job growth is the principal determinant of the amount of population and household growth expected in the region and job growth is forecast first.

Regional job growth is forecast starting with national projections of population and jobs by detailed (100+) sector. The national projection of jobs by industry is used to develop state job projections by detailed industry.

The state job projections and an analysis of the SACOG share of state job growth are used to develop the regional job forecast.

Population is projected to grow at a rate consistent with the forecast job growth taking into account birth and death rates and the changing age structure of the region. The projected population is sufficient to support the job growth forecast.

Household growth is forecast using detailed age and ethnic group household formation (headship) rates provided by the state Department of Finance (DOF) along with DOF projections of regional age and ethnic group structures.

Key Findings and Assumptions in the Baseline Growth Forecast

CCSCE examined three sets of national projections. The baseline scenario assumes a continuation of the lower birth rates experienced recently. It assumes a slow increase in foreign immigration to 2050. The national pattern of job growth favors industries in which California has a competitive advantage including professional and information services and entertainment and tourism. Other key trends include growth in construction and health care jobs and a relatively steady level of manufacturing jobs to 2050.

Without continued immigration the national population growth rate approaches 0 by 2050 and with increased immigration the population growth rate by 2050 is less than .5% per year.

The state has experienced strong job growth since 2012 and between 2012 and 2016 the state share of U.S. jobs increased from 11.4% to a record high of 11.8% driven by share gains in strong growth sectors throughout most of the state. Share gains were centered in technology, trade and tourism.

Small additional share gains in these sectors were projected to 2025 but after 2025 no industry share gains were assumed. Still, the state's share of U.S. jobs is expected to increase as national job gains are strong in industries where California captures a high share of job growth. The state's share of U.S. jobs is forecast to reach 12.1% in 2025, 12.2% in 2040 and 12.3% in 2050.

After posting strong job growth and share gains between 1990 and 2007, the SACOG region's job growth lagged the state average between 2007 and 2016. The regional share of state jobs fell slightly and no major industry posted a significant share increase. The region's economic base (sectors that provide most goods and services outside the region) is dominated by state government and education jobs.

In 2016 nearly 1/3 of the region's economic base jobs were in state government and education, triple the state average. As a result the region was underrepresented in all other basic industry groups. The second largest basic industry group is professional and information services, which does have strong job growth prospects in the state and in the neighboring Bay Area region.

Without policies to support a significant increase in the region's share of large and fast growing basic industries, regional job growth will keep pace with state growth and even that will require policies in support of housing and other economic competitiveness factors.

Structure of SACOG and CA Economic Base
(Percent of Jobs by Major Category)

2016

	SACOG Jobs(000)	SACOG Share	CA Share
High Tech Manuf.	7.8	2.1%	6.0%
Divs. Manuf.	29.4	7.9%	12.8%
Wholesale Trade & Transp.	54.1	14.6%	18.6%
Prof, Bus & Info Serv.	103.2	27.9%	33.3%
Tourism & Entertainment	26.5	7.2%	10.4%
Basic Government	133.2	36.0%	11.5%
Resource Based	15.9	4.3%	7.5%
Total Basic Jobs	370.1	100.0%	100.0%

Source: EDD and CCSCE

Population is forecast to grow consistent with job growth. Birth rates are assumed to remain at current low and below replacement level rates. Growth to 2030 is dominated by increases in the 65+ population. After 2030 there is more growth in working age groups. Hispanic and multi-race population groups are the fastest growing.

It is important to remember that most growth in these groups and in the Asian population are the children and grandchildren of immigrants and have much higher levels of education and language ability.

It is important to note that the baseline forecast results in less regional population growth compared to the January 2017 DOF projections, especially in the years after 2030. This is because the last SACOG growth forecast had higher job growth compared to the current forecast.

DOF provided two sets of household formation (headship) rates. One corresponds to what will become the official DOF projection to 2030 with close to 127,000 additional households per year through 2025. The second higher set corresponds to the Housing and Community Development (HCD) department target of 180,000 units per year statewide.

Both sets of household forecasts result in faster household and residential permit growth than has occurred over the past ten years. Such growth will require policies at the local and regional level in support of making it easier to build housing and to reduce the cost of housing development so as to keep prices and rents as low as possible.

Housing is one of the key economic competitiveness challenges as well as being important for equity and environmental goals.

Low and High Growth Scenarios

The low and high growth scenarios were informed by expert panel meetings conducted at SACOG and at the national and state level by similar work for the Los Angeles region (SCAG).

The low scenario had 10 million fewer residents in the nation in 2050. One way that could happen is if immigration levels remained near current levels or birth rates declined further or some combination of the two trends. Expert panel members thought lower U.S. population and job growth was possible though panelists did not think the growth forecast should respond to current administration proposals as it is a long-term forecast going to 2050.

Panelists did expect state job growth would outpace the nation based on a favorable industry composition, but some thought the increase in the state's share of U.S. jobs would be less than assumed in the baseline forecast and that assumption was built into the low scenario.

The SACOG share of state jobs was not changed in the low scenario so the lower forecast is the result of changes in the national and state forecasts.

Population and household growth was lowered to keep the same relationship to job growth as in the baseline forecast.

The low and high growth scenarios were developed by changing key overall share assumptions and did not develop new industry share assumptions. The high growth scenario was developed to show what kind of job growth would be necessary to be more consistent with the DOF population projections.

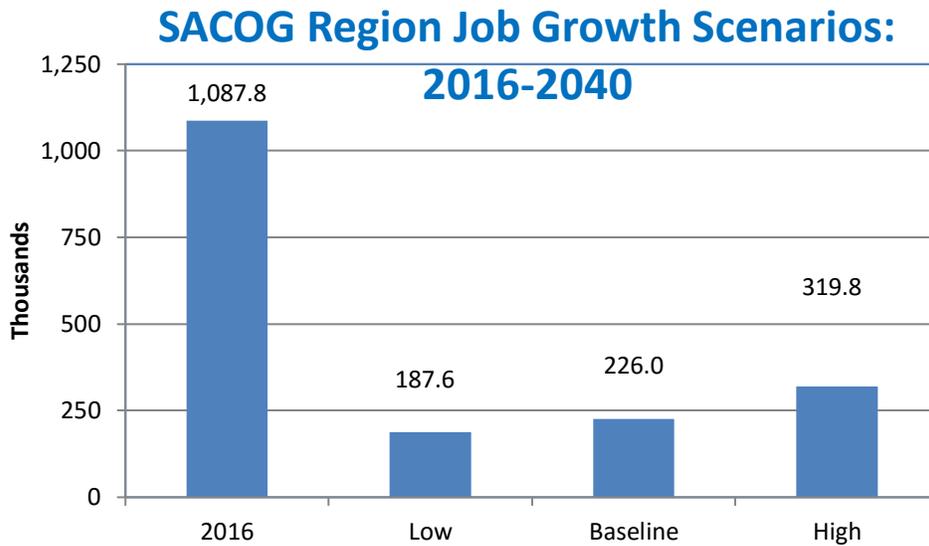
It is based on the baseline national forecast as the expert panel did not think higher national growth was likely.

The high scenario assumes that California will gain a slightly higher share of U.S. job growth than in the baseline scenario—12.5% in 2050 compared to 12.3% in the baseline forecast.

It assumes a much higher share of state growth locating in the SACOG region—6.1% in 2025 compared to 5.9%, 6.3% in 2040 compared to 6.0% and 6.5% in 2050 compared to 6.0% in the baseline forecast.

Population and household growth are proportionally higher.

The three job growth scenarios are shown below. In the baseline forecast the region captures 6.4% of state job growth to 2050 (it has 5.9% in 2016) and in the high growth scenario the region would need to capture 8.5% of state job growth or almost 40% more than in the baseline forecast.



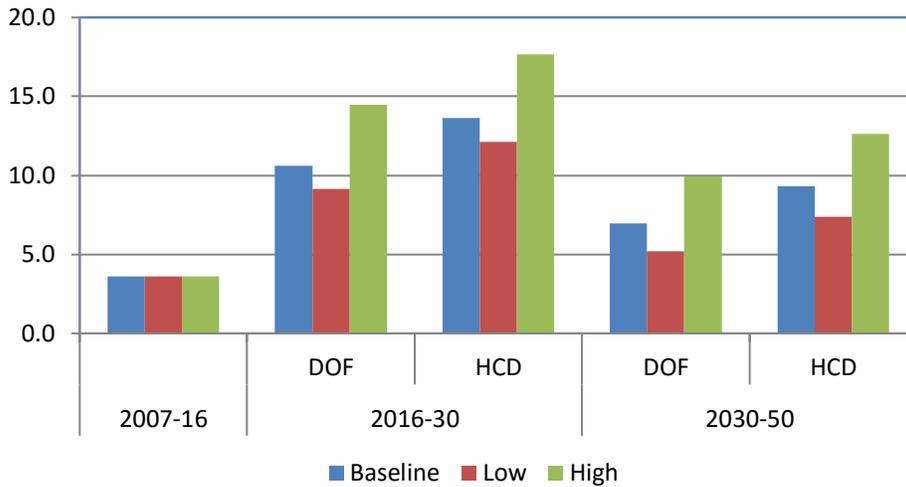
The region added fewer than 4,000 households per year between 2007 and 2016. A higher number of residential permits were issued with some discarded when the recession hit and some now under construction but not yet occupied.

The forecast of annual household increases is much larger than recent experience under all scenarios and for both the DOF and HCD target projections. Annual increases are higher in the 2016-2030 period compared to the years after 2030 as the 2030 projections assume some catch up from the current shortage.

In 2015 and 2016 the SACOG region saw an increase in residential permits averaging 7,000 for the two years. So far in 2017, permits are up 34% and are on pace to exceed 8,000 units.

However, the forecasted growth will require higher levels of construction to meet even the low growth forecast and much higher levels of construction to support the high job growth forecast.

Annual Increase in Households (000s)



Sensitivity Analysis and Key Competitive Factors

The largest cluster of basic industry job growth is in the professional and information services sector—a key Bay Area growth cluster. The region is projected to keep pace with state growth in this sector in the baseline forecast. The next memo on competitive factors will explore what is needed to achieve a higher job growth rate than the baseline projection.

From CCSCE’s perspective the key issues are around housing and taking advantage of the mega region connection between the SACOG and Bay Area region.

The key SACOG region advantages are 1) lower housing costs, 2) a location in close proximity to Bay Area headquarters and 3) lower land costs and abundant space for expansions.

The key challenges are 1) building a sufficient quantity of housing to both serve local growth and Bay Area spillover, 2) lowering the cost of building housing to keep the region attractive compared to other expansion areas for Bay Area firms and 3) developing interregional travel options that are much faster than currently available. These are the same advantages and challenges for achieving the baseline forecast of job growth.

The housing challenge is substantially within regional control. If the goal is to attract a higher share of Bay Area tech service job spillover, the housing policies need to be tailored to that group of workers. Companies locate in and are still expanding in the Bay Area because that is where their workers want to be.

The concept of integrated labor markets where workers commute between regions is hampered by the long travel times with either driving or the current Corridor service. Moreover, by 2025 it is possible that the Bay Area will be connected to places like Fresno with one hour high speed rail service. This would be intense competition for the SACOG region in terms of lower housing costs and access to Bay Area jobs.

The Next Economy report and others have identified a number of regional “clusters of opportunity”. This concept can have several meanings, only one of which leads to significantly higher regional job growth. One major purpose of the work was to identify job openings and need for training. This is a great goal and most job openings will come from replacing baby boomers when they retire, not from job growth.

Some clusters such as agriculture and food or advanced manufacturing show opportunities for niche market growth, some higher wage jobs and profit opportunities. But many of the clusters are relatively small and slow growing overall so are unlikely to lead to the higher growth forecast.

Two large sectors that might see increased job growth are 1) services connected to state government planning in areas like climate change, transportation and health care and 2) state headquarters for health care activities.

A longer memo on these issues has been prepared and more will be shared in stakeholder and Board presentations.